

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date			Date Audit Report Submitted to State		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

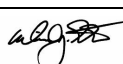
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Belleville, Michigan

Financial Report with Supplemental Information June 30, 2005

City of Belleville, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Belleville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Belleville, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Belleville, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Belleville, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms



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To the Honorable Mayor and
Members of the City Council
City of Belleville, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Belleville, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 15, 2006

City of Belleville, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Belleville, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The City had significantly less activity with the community development block grant program.
- Total governmental activity revenue decreased approximately \$104,000 from the prior year. The most significant factor in the decrease is that the City had significantly less activity with the community development block grant program.
- Total net assets related to the City's governmental activities decreased by approximately \$138,000, and business-type activities decreased by approximately \$147,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Belleville, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and compared to the prior year (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 1,233	\$ 1,027	\$ 221	\$ 445	\$ 1,454	\$ 1,472
Noncurrent assets	<u>1,991</u>	<u>2,135</u>	<u>4,217</u>	<u>4,434</u>	<u>6,208</u>	<u>6,569</u>
Total assets	3,224	3,162	4,438	4,879	7,662	8,041
Liabilities						
Current liabilities	637	354	115	258	752	612
Long-term liabilities	<u>656</u>	<u>739</u>	<u>2,411</u>	<u>2,562</u>	<u>3,067</u>	<u>3,301</u>
Total liabilities	<u>1,293</u>	<u>1,093</u>	<u>2,526</u>	<u>2,820</u>	<u>3,819</u>	<u>3,913</u>
Net Assets						
Invested in capital assets -						
Net of related debt	1,450	1,511	1,261	1,233	2,711	2,744
Restricted	337	136	544	639	881	775
Unrestricted	<u>144</u>	<u>422</u>	<u>107</u>	<u>187</u>	<u>251</u>	<u>609</u>
Total net assets	<u>\$ 1,931</u>	<u>\$ 2,069</u>	<u>\$ 1,912</u>	<u>\$ 2,059</u>	<u>\$ 3,843</u>	<u>\$ 4,128</u>

The City's combined net assets decreased approximately 7 percent from a year ago - decreasing from approximately \$4,128,000 to \$3,843,000. As we look at the governmental activities separately from the business-type activities, we can see that net assets decreased approximately \$138,000, or 7 percent.

The current level of unrestricted net assets for our governmental activities stands at approximately \$144,000, or about 5 percent of expenditures.

City of Belleville, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year ended June 30, 2005 as compared to the prior year (in thousands of dollars):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 536	\$ 581	\$ 790	\$ 792	\$ 1,326	\$ 1,373
Operating grants and contributions	487	576	-	-	487	576
Capital grants and contributions	-	-	-	14	-	14
General revenue:						
Property taxes	1,130	1,094	-	-	1,130	1,094
State-shared revenue	397	401	-	-	397	401
Unrestricted investment earnings	17	27	12	38	29	65
Franchise fees	47	54	-	-	47	54
Miscellaneous	30	15	52	136	82	151
Total revenue	2,644	2,748	854	980	3,498	3,728
Program Expenses						
General government	458	410	-	-	458	410
Public safety	1,508	1,336	-	-	1,508	1,336
Public works	550	541	-	-	550	541
Health and welfare	42	168	-	-	42	168
Recreation and culture	224	224	-	-	224	224
Interest on long-term debt	-	10	-	-	-	10
Water and sewer	-	-	1,001	960	1,001	960
Total program expenses	2,782	2,689	1,001	960	3,783	3,649
Change in Net Assets	\$ (138)	\$ 59	\$ (147)	\$ 20	\$ (285)	\$ 79

Governmental Activities

The City's total governmental revenues net of current year expenses resulted in a decrease of approximately \$138,000 in net assets. The decrease was primarily due to the continuing decrease in state-shared revenue and interest earnings as well as overall decrease in operating grant revenue.

An increase in expenditures was led by increases in health care costs, police and fire salaries, and property insurance rates. To offset this, the City closely monitored its spending in all other areas including foregoing projects that did not have an imminent need.

City of Belleville, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through the Downriver Sewage Treatment System. The City is participating in a consent decree with other surrounding communities including Wayne County to expand this system and eliminate any violations of the Clean Water Act. The total estimated cost of this project to the City is approximately \$2,323,000, of which \$548,070 has been funded through water and sewer rates.

In 2005, it was a wetter-than-average year, which resulted in relatively less usage in the water system. In addition, the City's water loss remained high. The City attempted to mitigate these factors by controlling operating and administrative costs. These combined factors resulted in operating loss of approximately \$1,100 in the current year.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2005 include the General Fund and the Major Streets Fund.

The General Fund pays for most of the City's governmental services. The most significant is public safety, which incurred expenses of approximately \$1,340,000, or 57 percent, of the General Fund's total expenditures in 2005. The public safety department is funded primarily by the City's operating millage. This same millage funds other significant activities of the General Fund, including recreation and culture and public works.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were to include the quarterly payments to the Fred C. Fischer Library for \$66,300 and to decrease the transfer from other funds by approximately \$33,000. City departments, besides the police and fire department, overall stayed below budget, resulting in total expenditures approximately \$500 above budget. Revenues were less than budgeted by approximately \$7,500, resulting in an overall increase to the City's fund deficit of \$55,695.

Capital Asset and Debt Administration

At the end of 2005, the City had approximately \$5,663,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City. The City is also participating in a construction project with other surrounding communities including Wayne County to expand the capacity of the downriver sewage treatment system. The estimated cost of this project is approximately \$2,323,000.

City of Belleville, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City's budget for fiscal year ending June 30, 2006 calls for a 1.3 mill increase to property tax rates. This increase will fund capital improvements throughout the City. The City has had continued growth in its tax base; however, because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate water and sewer rates will remain constant in 2006. The City continually monitors the adequacy of the rate compared to operating costs. Any increase in operating costs, including cost of purchasing water from the City of Detroit, may result in future increases in the City's water and sewer rate. Any proposed increase will likely involve a public hearing to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

City of Belleville, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
Assets				
Cash and investments (Note 3)	\$ 433,820	\$ 166,597	\$ 600,417	\$ 1,172,292
Receivables - Net:				
Customers	-	187,911	187,911	-
Special assessment	21,682	17,960	39,642	-
Other	159,271	5,054	164,325	-
Due from other governmental units	371,698	-	371,698	3,999
Due from component units	73,027	15,570	88,597	
Due from primary government	-	-	-	87,872
Internal balances	171,648	(171,648)	-	-
Prepaid costs and other assets	1,599	-	1,599	-
Restricted assets (Note 1)	-	544,068	544,068	-
Capital assets - Net (Note 4)	1,990,837	3,672,551	5,663,388	2,352,419
Total assets	3,223,582	4,438,063	7,661,645	3,616,582
Liabilities				
Accounts payable	99,886	53,628	153,514	185,520
Due to other governmental units	379,915	-	379,915	88,030
Due to primary government	-	-	-	88,597
Due to component unit	45,585	42,287	87,872	-
Accrued and other liabilities	91,100	19,245	110,345	20,836
Deferred revenue (Note 6)	19,664	-	19,664	-
Noncurrent liabilities (Note 7):				
Due within one year	55,959	169,399	225,358	185,000
Due in more than one year	496,421	2,241,935	2,738,356	1,765,000
Long-term portion of compensated absences	103,895	-	103,895	-
Total liabilities	1,292,425	2,526,494	3,818,919	2,332,983
Net Assets				
Invested in capital assets - Net of related debt	1,450,001	1,261,217	2,711,218	402,419
Restricted:				
Cemetery perpetual care	212,402	-	212,402	-
Streets and highways	70,760	-	70,760	-
Building department	21,213	-	21,213	-
911 Funds	14,041	-	14,041	-
Capital Projects	18,800	-	18,800	-
Debt service	-	544,068	544,068	-
Unrestricted	143,940	106,284	250,224	881,180
Total net assets	\$ 1,931,157	\$ 1,911,569	\$ 3,842,726	\$ 1,283,599

City of Belleville, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 458,132	\$ 183,722	\$ 49,479	\$ -
Public safety	1,507,980	124,481	214,719	-
Public works	550,353	15,946	223,136	-
Health and welfare	41,521	128,798	-	-
Recreation and culture	223,819	83,339	-	-
Total governmental activities	2,781,805	536,286	487,334	-
Business-type activities - Water and sewer	1,000,271	789,823	-	-
Total primary government	<u>\$ 3,782,076</u>	<u>\$ 1,326,109</u>	<u>\$ 487,334</u>	<u>\$ -</u>
Component unit - Downtown Development Authority	<u>\$ 812,060</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (224,931)	\$ -	\$ (224,931)	\$ -
(1,168,780)	-	(1,168,780)	-
(311,271)	-	(311,271)	-
87,277	-	87,277	-
(140,480)	-	(140,480)	-
(1,758,185)	-	(1,758,185)	-
-	(210,448)	(210,448)	-
(1,758,185)	(210,448)	(1,968,633)	-
-	-	-	(812,060)
1,129,854	-	1,129,854	971,971
396,607	-	396,607	-
16,615	11,677	28,292	10,330
47,008	-	47,008	-
30,437	51,843	82,280	-
1,620,521	63,520	1,684,041	982,301
(137,664)	(146,928)	(284,592)	170,241
2,068,821	2,058,497	4,127,318	1,113,358
\$ 1,931,157	\$ 1,911,569	\$ 3,842,726	\$ 1,283,599

City of Belleville, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Major Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ -	\$ 355	\$ 433,465	\$ 433,820
Receivables:				
Special assessment	21,682	-	-	21,682
Other	159,271	-	-	159,271
Due from other governmental units	208,358	28,488	60,463	297,309
Due from other funds (Note 5)	207,872	70,951	270,100	548,923
Due from component unit (Note 5)	73,027	-	-	73,027
Prepaid expenses and other assets	1,599	-	-	1,599
Total assets	<u>\$ 671,809</u>	<u>\$ 99,794</u>	<u>\$ 764,028</u>	<u>\$ 1,535,631</u>
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ 97,155	\$ 25	\$ 2,706	\$ 99,886
Due to other governmental units	379,915	-	-	379,915
Due to other funds (Note 5)	175,014	44,656	157,605	377,275
Due to component unit (Note 5)	23	45,283	279	45,585
Accrued and other liabilities	87,496	2,841	763	91,100
Deferred revenue	58,536	-	19,664	78,200
Total liabilities	798,139	92,805	181,017	1,071,961
Fund Balances (Deficit)				
Reserved for cemetery perpetual care	-	-	212,402	212,402
Unreserved, reported in:				
General Fund	(126,330)	-	-	(126,330)
Special Revenue Funds	-	6,989	351,809	358,798
Capital Projects Fund	-	-	18,800	18,800
Total fund balances (deficit)	<u>(126,330)</u>	<u>6,989</u>	<u>583,011</u>	<u>463,670</u>
Total liabilities and fund balances (deficit)	<u>\$ 671,809</u>	<u>\$ 99,794</u>	<u>\$ 764,028</u>	<u>\$ 1,535,631</u>
Fund Balance - Total Governmental Funds				\$ 463,670
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,990,837
State revenue-sharing payment received 60 days after year end is not reported in the funds				74,389
Amounts earned during the year but not received within 60 days after year end are not reported in the funds				58,536
Compensated absences are included as a liability in governmental activities				(115,439)
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(540,836)
Net Assets of Governmental Activities				<u>\$ 1,931,157</u>

City of Belleville, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2005

	General Fund	Major Streets Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 1,129,854	\$ -	\$ -	\$ 1,129,854
State sources	453,507	159,251	116,138	728,896
Federal sources	105,952	-	44,619	150,571
Licenses and permits	960	-	66,367	67,327
Interest and rent	58,450	558	2,774	61,782
Charges for services	207,323	-	80,295	287,618
District Court	53,600	-	-	53,600
Other	151,286	-	13,033	164,319
Total revenue	2,160,932	159,809	323,226	2,643,967
Expenditures				
Current:				
General government	466,623	-	-	466,623
Public safety	1,340,383	-	78,418	1,418,801
Public works	323,659	111,300	52,797	487,756
Recreation and culture	135,256	-	77,998	213,254
Other	-	14,288	14,691	28,979
Capital outlay	-	-	59,128	59,128
Debt service	-	45,283	-	45,283
Total expenditures	2,265,921	170,871	283,032	2,719,824
Excess of Revenue Over (Under) Expenditures	(104,989)	(11,062)	40,194	(75,857)
Other Financing Sources (Uses)				
Transfers in	58,844	13,600	9,550	81,994
Transfers out	(9,550)	-	(72,444)	(81,994)
Total other financing sources (uses)	49,294	13,600	(62,894)	-
Contributions	-	-	9,300	9,300
Net Change in Fund Balance	(55,695)	2,538	(13,400)	(66,557)
Fund Balances (Deficit) - Beginning of year	(70,635)	4,451	596,411	530,227
Fund Balances (Deficit) - End of year	<u>\$ (126,330)</u>	<u>\$ 6,989</u>	<u>\$ 583,011</u>	<u>\$ 463,670</u>

City of Belleville, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ (66,557)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation (144,679)

Revenue reported in the statement of activities in a previous year
that did not provide current financial resources and is reported as
revenue in the governmental funds in the year collected (9,119)

Repayment of bond principal is an expenditure in the
governmental funds, but not in the statement of activities
(where it reduces long-term debt) 84,112

Increase in accumulated employee sick and vacation pay,
as well as estimated general liability claims, is recorded
when earned in the statement of activities (1,421)

Change in Net Assets of Governmental Activities **\$ (137,664)**

City of Belleville, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Assets June 30, 2005

Assets

Cash and investments	\$ 166,597
Receivables:	
Customers	187,911
Special assessment	17,960
Other	5,054
Due from component unit	15,570
Due from other funds (Note 5)	<u>11,482</u>
Total current assets	404,574
Noncurrent assets:	
Restricted assets (Note 1)	544,068
Capital assets (Note 4)	<u>3,672,551</u>
Total noncurrent assets	<u>4,216,619</u>
Total assets	4,621,193

Liabilities

Current liabilities:	
Accounts payable	53,628
Due to other funds (Note 5)	183,130
Due to component unit (Note 5)	42,287
Accrued and other liabilities	19,245
Current portion of long-term debt (Note 7)	<u>169,399</u>
Total current liabilities	467,689
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	<u>2,241,935</u>
Total liabilities	<u>2,709,624</u>

Net Assets

Investment in capital assets - Net of related debt	1,261,217
Restricted for debt service	544,068
Unrestricted	<u>106,284</u>
Total net assets	<u><u>\$ 1,911,569</u></u>

City of Belleville, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

Operating Revenue

Water sales	\$ 375,103
Sewage disposal	376,328
Charges for services	38,392
Other revenue	<u>51,843</u>

Total operating revenue 841,666

Operating Expenses

Cost of water	205,235
Cost of sewage disposal	180,746
Operations and maintenance	106,345
General and administrative	227,875
Depreciation	<u>122,583</u>

Total operating expenses 842,784

Operating Loss (1,118)

Nonoperating Revenue (Expense)

Investment income	11,677
Interest expense	<u>(157,487)</u>

Total nonoperating expense (145,810)

Change in Net Assets (146,928)

Net Assets - Beginning of year 2,058,497

Net Assets - End of year \$ 1,911,569

City of Belleville, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2005

Cash Flows from Operating Activities

Receipts from customers	\$ 818,790
Payments to suppliers	(516,309)
Payments to employees	(216,899)

Net cash provided by operating activities 85,582

Cash Flows from Capital and Related Financing Activities

Collection of customer assessments (principal and interest)	8,979
Principal and interest paid on capital debt	(308,410)
Increase in restricted assets held by the County	(2,466)

Net cash used in capital and related financing activities (301,897)

Cash Flows from Investing Activities - Interest received on investments 11,677

Net Decrease in Cash and Investments (204,638)

Cash and Investments - Beginning of year 752,836

Cash and Investments - End of year \$ 548,198

Balance Sheet Classification of Cash and Investments

Cash and investments	\$ 166,597
Restricted cash (Note 1)	381,601

Total cash and cash equivalents \$ 548,198

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (1,118)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	122,583
Changes in assets and liabilities:	
Receivables	(29,894)
Due from other funds	32,221
Accounts payable	(7,659)
Accrued and other liabilities	(5,348)
Due from component units	(15,570)
Due to other funds	(9,633)

Net cash provided by operating activities \$ 85,582

Noncash Investing, Capital, and Financing Activities - The City has assets held at Wayne County for the purpose of financing the construction of water and sewer lines. During the year ended June 30, 2005, interest income of \$1,456 was earned on these assets.

City of Belleville, Michigan

Fiduciary Fund Agency Fund Statement of Assets and Liabilities June 30, 2005

	<u>Agency Fund</u>
Assets	
Cash and investments	\$ 267,294
Taxes receivable	<u>1,580</u>
Total assets	<u>\$ 268,874</u>
Liabilities	
Accounts payable	\$ 16,672
Accrued and other liabilities	47,268
Due to other governmental units	<u>204,934</u>
Total liabilities	<u>\$ 268,874</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Belleville, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Belleville, Michigan:

Reporting Entity

The City of Belleville, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit - The Downtown Development Authority (the "Authority") is governed by a nine-member board that is appointed by the City Council. The Authority is reported as if it were part of the primary government because the City Council retains responsibility for the activities, finances, and commitments of the Authority. In addition, the Authority's budget is subject to approval by the City Council. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is used to account for the resource of state gas and weight tax revenues that are restricted for use on major roads.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Agency Fund - The Agency Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note I - Summary of Significant Accounting Policies (Continued)

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the City totaled approximately \$92,763,000 (a portion of which is captured by the DDA), on which ad valorem taxes levied consisted of 16.6 mills for operating purposes. This resulted in approximately \$1,071,000 for operations. These amounts are recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market prices.

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of the City of Belleville, Michigan's water and sewer lines.

Restricted assets at June 30, 2005 consist of the following:

County sewage disposal system bonds - Assets held at the	
County for future debt payments	\$ 162,467
Cash and cash equivalents	<u>381,601</u>
Total restricted assets	<u>\$ 544,068</u>

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 to 25 years
Water system and equipment	5 to 50 years
Sewage collection system	30 to 40 years
Equipment machinery and vehicles	5 to 20 years
Buildings and building improvements	25 years
Land improvements	20 to 25 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Note 2 - Stewardship, Compliance, and Accountability

Noncompliance with Legal Provisions - The original and amended budgets as adopted by the City were not in compliance with the Uniform Accounting and Budgeting Act (Public Act 2 of 1968, as amended) as the General Fund had budgeted a deficit at the end of the year.

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Council by the first Monday in June; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Fund budget as adopted by the City Council is included in the required supplemental information. The adopted budget for the nonmajor Special Revenue Funds can be obtained at City Hall.

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Belleville, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
General government:		
Clerk	\$ 62,235	\$ 63,471
Outside services	78,000	92,469
Public safety:		
Police	1,199,870	1,227,396
Fire	84,300	112,987
Public works:		
Department of public works	90,770	94,975
Other	-	20,452
Major Street Fund - Other	14,000	14,288

Fund Deficits - For the year ended June 30, 2005, the General Fund and the Cemetery Special Revenue Fund have fund deficits. The City intends to remedy the deficits through property tax collections, recognition of deferred revenue, and transfers from the Budget Stabilization Fund.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. To the extent that cash from various funds has been pooled in an investment vehicle, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Note 3 - Deposits and Investments (Continued)

The City has designated seven banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$54,494 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized; the Downtown Development Authority had \$906,933 that was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government or agency bonds	\$ 200,000	73 months

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 67,205	Not rated	N/A

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 159,200	\$ -	\$ -	\$ 159,200
Capital assets being depreciated:				
Land improvements	104,374	-	-	104,374
Buildings	635,800	-	-	635,800
Building improvements	380,009	-	-	380,009
Infrastructure	758,215	-	-	758,215
Equipment, machinery, and vehicles	1,039,401	-	-	1,039,401
Subtotal	2,917,799	-	-	2,917,799
Accumulated depreciation:				
Land improvements	8,350	4,175	-	12,525
Buildings	101,728	25,432	-	127,160
Building improvements	49,540	15,200	-	64,740
Infrastructure	131,566	37,911	-	169,477
Equipment, machinery, and vehicles	650,299	61,961	-	712,260
Subtotal	941,483	144,679	-	1,086,162
Net capital assets being depreciated	1,976,316	(144,679)	-	1,831,637
Net capital assets	\$ 2,135,516	\$ (144,679)	\$ -	\$ 1,990,837

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Business-type Activities				
Capital assets not being depreciated - Land	\$ 7,872	\$ -	\$ -	\$ 7,872
Capital assets being depreciated:				
Water system and equipment	963,421	-	-	963,421
Sewage collection system	5,044,074	-	-	5,044,074
Equipment and vehicles	126,191	-	-	126,191
Subtotal	6,133,686	-	-	6,133,686
Accumulated depreciation:				
Water system and equipment	521,159	30,745	-	551,904
Sewage collection system	1,727,294	79,738	-	1,807,032
Equipment and vehicles	97,971	12,100	-	110,071
Subtotal	2,346,424	122,583	-	2,469,007
Net capital assets being depreciated	3,787,262	(122,583)	-	3,664,679
Net capital assets	<u>\$ 3,795,134</u>	<u>\$ (122,583)</u>	<u>\$ -</u>	<u>\$ 3,672,551</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 9,718
Public safety	30,051
Public works	94,395
Recreation and culture	10,515
Total governmental activities	<u>\$ 144,679</u>
Business-type activities - Water/Sewer	<u>\$ 122,583</u>

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

Capital asset activity of the Downtown Development Authority was as follows:

Component Unit Activities	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated -				
Land	\$ 170,000	\$ -	\$ -	\$ 170,000
Capital assets being depreciated:				
Land improvements	2,449,315	37,443	-	2,486,758
Buildings	65,790	-	-	65,790
Building improvements	210,000	-	-	210,000
Infrastructure	510,499	-	-	510,499
Subtotal	3,235,604	37,443	-	3,273,047
Accumulated depreciation:				
Land improvements	825,747	106,866	-	932,613
Buildings	2,595	2,595	-	5,190
Building improvements	16,800	8,400	-	25,200
Infrastructure	102,100	25,525	-	127,625
Subtotal	947,242	143,386	-	1,090,628
Net capital assets being depreciated	2,288,362	(105,943)	-	2,182,419
Net capital assets	<u>\$ 2,458,362</u>	<u>\$ (105,943)</u>	<u>\$ -</u>	<u>\$ 2,352,419</u>

Depreciation expense was charged to the Downtown Development Authority in the amount of \$143,386.

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Major Streets Fund	\$ 24,903
General Fund	Water and Sewer Fund	107,931
General Fund	Other nonmajor funds	75,038
Major Streets Fund	General Fund	57,113
Major Streets Fund	Other nonmajor funds	13,838
Water and Sewer Fund	General Fund	11,482
Other nonmajor funds	General Fund	106,419
Other nonmajor funds	Major Streets Fund	19,753
Other nonmajor funds	Other nonmajor funds	68,729
Other nonmajor funds	Water and Sewer Fund	75,199
Total		<u>\$ 560,405</u>

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Component unit - Downtown Development Authority	Primary government - General Fund	\$ 23
Component unit - Downtown Development Authority	Primary government - Water and Sewer Fund	42,287
Component unit - Downtown Development Authority	Primary government - Other nonmajor funds	279
Component unit - Downtown Development Authority	Primary government - Major Streets Fund	45,283
Total		<u>\$ 87,872</u>
Primary government - General Fund	Component unit - Downtown Development Authority	\$ 73,027
Primary government - Water and Sewer Fund	Component unit - Downtown Development Authority	15,570
Total		<u>\$ 88,597</u>

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance resulting from normal interfund activity until the amounts can be reimbursed between the funds.

Interfund Transfers

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>
General Fund	Nonmajor funds (2)	\$ 11,428
	Nonmajor funds (3)	<u>47,416</u>
Total General Fund		58,844
Major Street Fund	Nonmajor funds (1)	13,600
Nonmajor Funds	General Fund (1)	<u>9,550</u>
Total transfers		<u><u>\$ 81,994</u></u>

The following describes the nature of the transfer:

- (1) Transfers for capital improvements
- (2) Transfers of discretionary funds to be used for the benefit of the community
- (3) Transfer of 911 service fees

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 10,049	\$ -
Reimbursements from other governmental units received greater than 60 days after year end	40,285	-
Grant reimbursements received greater than 60 days after year end	8,202	-
Grant payments received prior to meeting all eligibility requirements	-	19,664
Total	<u>\$ 58,536</u>	<u>\$ 19,664</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Note payable - Downtown Development Authority:							
Amount of issue - \$130,000	4.5%	\$43,334	\$ 43,334	\$ -	\$ (43,334)	\$ -	\$ -
Maturing through 2005							
Land contract:							
Amount of issue - \$90,408	9.0%	\$6,528 -					
Maturing through 2007		\$33,478	62,281	-	(11,238)	51,043	10,221
Land contract:							
Amount of issue - \$620,000	6.2%	\$26,700 -					
Maturing through 2016		\$55,156	519,333	-	(29,540)	489,793	34,194
Total installment debt obligations			624,948	-	(84,112)	540,836	44,415
Other long-term obligations - Accumulated employee benefits			114,018	1,421	-	115,439	11,544
Total governmental activities			738,966	1,421	(84,112)	656,275	55,959
Business-type Activities							
County contractual obligations - Revenue Bonds:							
Water Supply and Sewer Disposal System, Series 1992A:							
Amount of issue - \$550,000	7.1% -	\$30,000 -					
Maturing through 2013	7.3%	\$45,000	195,000	-	(30,000)	165,000	30,000
Water Supply and Sewer Disposal System, Series 1994:							
Amount of issue - \$995,000	6.0% -	\$60,000 -					
Maturing through 2011	6.25%	\$100,000	455,000	-	(50,000)	405,000	60,000
Water Supply and Sewer Disposal System, Series 2002:							
Amount of issue - \$995,000	3.75% -	\$25,000 -					
Maturing through 2023	5.4%	\$135,000	995,000	-	(20,000)	975,000	25,000
General obligation bonds:							
Downriver Sewer System Debt:							
15 issues							
Maturing through 2021	various	various	917,257	-	(50,923)	866,334	54,399
Total business-type activities			2,562,257	-	(150,923)	2,411,334	169,399
Total governmental and business-type activities			\$ 3,301,223	\$ 1,421	\$ (235,035)	\$ 3,067,609	\$ 225,358
Component Unit							
County contractual obligations - General obligation bonds:							
Limited Tax Bond, Series 1994A:							
Amount of issue - \$1,075,000	6.3% -	\$55,000 -					
Maturing through 2014	7.1%	\$100,000	\$ 735,000	\$ -	\$ (55,000)	\$ 680,000	\$ 55,000
Limited Tax Bond, Series 1994B:							
Amount of issue - \$825,000	7.0% -	\$70,000	630,000	-	(70,000)	560,000	70,000
Maturing through 2013	7.25%						
General obligation debt:							
Amount of issue - \$950,000	4.8% -	\$60,000 -					
Maturing through 2014	5.4%	\$100,000	765,000	-	(55,000)	710,000	60,000
Total component unit			\$ 2,130,000	\$ -	\$ (180,000)	\$ 1,950,000	\$ 185,000

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 44,415	\$ 33,585	\$ 78,000	\$ 169,399	\$ 99,724	\$ 269,123	\$ 185,000	\$ 121,705	\$ 306,705
2007	77,195	29,735	106,930	180,828	91,298	272,126	195,000	109,751	304,751
2008	38,695	24,905	63,600	197,320	82,093	279,413	205,000	97,066	302,066
2009	41,164	22,436	63,600	213,759	72,042	285,801	215,000	83,648	298,648
2010	43,790	19,810	63,600	215,299	61,325	276,624	220,000	69,650	289,650
2011-2015	264,589	53,411	318,000	897,537	186,966	1,084,503	930,000	124,238	1,054,238
2016-2020	30,988	560	31,548	418,121	70,463	488,584	-	-	-
2021-2025	-	-	-	119,071	9,826	128,897	-	-	-
Total	<u>\$ 540,836</u>	<u>\$ 184,442</u>	<u>\$ 725,278</u>	<u>\$ 2,411,334</u>	<u>\$ 673,737</u>	<u>\$ 3,085,071</u>	<u>\$ 1,950,000</u>	<u>\$ 606,058</u>	<u>\$ 2,556,058</u>

In the prior year, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2005, \$910,000 of bonds outstanding is considered defeased.

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee injuries and medical benefit claims and participates in the Michigan Municipal Risk Management Authority risk pool (as a state pool member) for claims relating to loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 9 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MMERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's collective bargaining units.

Effective June 1, 2000, the City agreed to institute the F55/20 waiver of the Michigan Employees' Retirement System Plan. Employee contributions are twenty-six one hundredths of one percent (.26 percent) and employer contributions are fifty one hundredths of one percent (.50 percent) of employees' gross earnings.

Annual Pension Costs - For the year ended June 30, 2005, the City's annual pension cost of \$146,648 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using an entry age normal actuarial method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) an additional salary increase of 0 percent to 4.16 percent per year, attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 27 years.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ 118,068	\$ 116,407	\$ 146,648
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Belleville, Michigan

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plan (Continued)

	Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 2,261,356	\$ 2,517,325	\$ 2,720,440
Actuarial accrued liability (entry age) (AAL)	\$ 3,659,825	\$ 3,776,872	\$ 4,143,702
Unfunded AAL (UAAL)	\$ 1,398,469	\$ 1,259,547	\$ 1,423,262
Funded ratio	61.79%	66.70%	65.65%
Covered payroll	\$ 845,447	\$ 994,878	\$ 990,765
UALL as a percentage of covered payroll	165.41%	127.00%	143.65%

Note 10 - Postretirement Benefits

The City provides health care benefits and life insurance policies to certain full-time employees upon retirement in accordance with labor contracts. Currently, two retirees are eligible for each. Expenditures for postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$16,500.

Upcoming Reporting Change

The Governmental Accounting Standards Board (GASB) has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 11 - Commitments

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the downriver sewage treatment system. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project for the City is \$2,323,000. To date, approximately \$548,000 has been collected through water and sewer rates for debt payments. The remaining debt outstanding at June 30, 2005 relating to this project is approximately \$866,000.

Note 12 - Joint Ventures

The City of Belleville, Michigan is a member of a joint venture with Van Buren and Sumpter Townships. The purpose is to provide library services to the residents of all participating communities. The participating communities provide annual funding for its operations, and it is the City of Belleville, Michigan's responsibility to account for and remit these funds to Wayne County for services provided. During the current year, the City contributed approximately \$66,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the joint venture can be obtained from the administrative offices at 6 Main Street, Belleville, MI.

The City of Belleville, Michigan is a member of a joint venture with Sumpter Township. The purpose is to provide centralized communications, detention facilities, and other related operations to the citizens of the communities for public safety, health, and welfare. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$134,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial activity is maintained by Sumpter Township. Financial statements for the joint venture can be obtained from the administrative offices at 23480 Sumpter Road, Belleville, MI.

The City of Belleville, Michigan is a member of a joint venture with Van Buren Township. The purpose is to provide museum services to the residents of all participating communities. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$27,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial activity is maintained by Van Buren Township. Financial statements for the joint venture can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI.

The City of Belleville, Michigan is a member of a joint venture with Van Buren Township, Huron Township, Sumpter Township, and the City of Romulus. The purpose is to provide a shared information network to the local law enforcement agencies. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$17,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Financial activity is maintained by Van Buren Township. Financial statements for the joint venture can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI.

Required Supplemental Information

City of Belleville, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Deficit - Beginning of year	\$ (70,635)	\$ (70,635)	\$ (70,635)	\$ -
Revenues				
Property taxes	1,125,800	1,125,800	1,129,854	4,054
Federal sources	72,000	127,040	105,952	(21,088)
State sources	324,660	448,660	453,507	4,847
Licenses and permits	3,475	3,475	960	(2,515)
Rental income	48,000	48,000	45,167	(2,833)
Other	450,400	415,400	425,492	10,092
Total revenues	2,024,335	2,168,375	2,160,932	(7,443)
Expenditures				
General government:				
City Council	23,785	21,785	20,582	1,203
City manager	58,350	56,350	56,267	83
Elections	7,400	6,400	5,048	1,352
Clerk	58,235	62,235	63,741	(1,506)
Treasurer	106,440	115,440	114,828	612
Municipal Building	164,265	169,265	112,621	56,644
Outside services	73,000	78,000	92,469	(14,469)
Other	-	2,600	1,067	1,533
Total general government	491,475	512,075	466,623	45,452
Public safety:				
Police	1,147,870	1,199,870	1,227,396	(27,526)
Fire	92,300	84,300	112,987	(28,687)
Total public safety	1,240,170	1,284,170	1,340,383	(56,213)
Public works:				
Department of Public Works	75,770	90,770	94,975	(4,205)
Street lighting	20,000	20,000	15,099	4,901
Vehicle operations	10,500	9,500	7,672	1,828
Sanitation	116,870	139,870	139,803	67
Block grant	9,200	44,000	20,113	23,887
Senior transportation	26,350	28,350	25,545	2,805
Other	-	-	20,452	(20,452)
Total public works	258,690	332,490	323,659	8,831
Recreation and cultural:				
Parks	32,200	44,200	41,989	2,211
Cultural activities	94,800	27,000	27,000	-
Library	-	66,300	66,267	33
Total recreation and cultural	127,000	137,500	135,256	2,244

City of Belleville, Michigan

Required Supplemental Information (Continued) Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Other Financing Sources (Uses)				
Transfers from other funds	\$ 93,000	\$ 60,000	\$ 58,844	\$ 1,156
Transfers to other funds	-	(9,950)	(9,550)	(400)
Total other financing sources (uses)	93,000	50,050	49,294	756
Total charges to appropriations	2,024,335	2,216,185	2,216,627	(442)
Fund Balance (Deficit) - End of year	\$ (70,635)	\$ (118,445)	\$ (126,330)	\$ (7,885)

City of Belleville, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 4,451	\$ 4,451	\$ 4,451	\$ -
Revenues				
State sources	160,000	160,000	159,251	(749)
Interest income	<u>200</u>	<u>200</u>	<u>558</u>	<u>358</u>
Total revenues	160,200	160,200	159,809	(391)
Expenditures				
Public works	72,300	112,400	111,300	1,100
Other	14,500	14,000	14,288	(288)
Debt service	<u>45,000</u>	<u>47,400</u>	<u>45,283</u>	<u>2,117</u>
Total expenditures	131,800	173,800	170,871	2,929
Other Financing Sources (Uses) -				
Transfers from other funds	<u>-</u>	<u>13,600</u>	<u>13,600</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 32,851</u>	<u>\$ 4,451</u>	<u>\$ 6,989</u>	<u>\$ (2,538)</u>

Other Supplemental Information

City of Belleville, Michigan

	Special Revenue Funds						
	Local Streets	Cemetery	Budget Stabilization	911	Building Department	Expendable Trust Fund	Capital Projects
Assets							
Cash and investments	\$ 12,783	\$ -	\$ 218,144	\$ 9	\$ 28,380	\$ 24,496	\$ 5,980
Due from other governmental units	8,830	-	-	-	-	-	51,633
Due from other funds	67,375	89,836	12,256	14,032	93	-	17,779
Total assets	<u>\$ 88,988</u>	<u>\$ 89,836</u>	<u>\$ 230,400</u>	<u>\$ 14,041</u>	<u>\$ 28,473</u>	<u>\$ 24,496</u>	<u>\$ 75,392</u>
Liabilities and Fund Balances (Deficit)							
Liabilities							
Accounts payable	\$ -	\$ 605	\$ -	\$ -	\$ 2,101	\$ -	\$ -
Accrued and other liabilities	265	199	-	-	299	-	-
Due to other funds	24,952	91,144	-	-	4,581	-	36,928
Due to component units	-	-	-	-	279	-	-
Deferred revenue	-	-	-	-	-	-	19,664
Total liabilities	25,217	91,948	-	-	7,260	-	56,592
Fund Balances (Deficit)							
Reserved for cemetery perpetual care	-	-	-	-	-	-	-
Unreserved, reported in:							
Special Revenue Funds	63,771	(2,112)	230,400	14,041	21,213	24,496	-
Capital Projects Fund	-	-	-	-	-	-	18,800
Total fund balances (deficit)	<u>63,771</u>	<u>(2,112)</u>	<u>230,400</u>	<u>14,041</u>	<u>21,213</u>	<u>24,496</u>	<u>18,800</u>
Total liabilities and fund balances (deficit)	<u>\$ 88,988</u>	<u>\$ 89,836</u>	<u>\$ 230,400</u>	<u>\$ 14,041</u>	<u>\$ 28,473</u>	<u>\$ 24,496</u>	<u>\$ 75,392</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

<u>Permanent</u>	
Cemetery	Total Nonmajor
Perpetual	Governmental
Care	Funds
\$ 143,673	\$ 433,465
-	60,463
<u>68,729</u>	<u>270,100</u>
<u>\$ 212,402</u>	<u>\$ 764,028</u>

\$ -	\$ 2,706
-	763
-	157,605
-	279
<u>-</u>	<u>19,664</u>
-	181,017
212,402	212,402
-	351,809
<u>-</u>	<u>18,800</u>
<u>212,402</u>	<u>583,011</u>
<u>\$ 212,402</u>	<u>\$ 764,028</u>

City of Belleville, Michigan

	Special Revenue Funds						
	Local Streets	Cemetery	Budget Stabilization	911	Building Department	Expendable Trust Fund	Capital Projects
Revenue							
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,619
State sources	54,690	-	-	61,448	-	-	-
Interest	748	1,692	-	-	285	-	49
Charges for services	-	80,295	-	-	-	-	-
Other revenue	-	1,965	-	-	3,767	7,301	-
Licenses and permits	-	-	-	-	66,367	-	-
Total revenue	55,438	83,952	-	61,448	70,419	7,301	44,668
Expenditures							
Highways, streets, and bridges	52,797	-	-	-	-	-	-
Parks and community service	-	77,998	-	-	-	-	-
Other	4,819	7,755	-	-	-	2,117	-
Capital outlay	-	-	-	-	-	-	59,128
Building inspection	-	-	-	-	78,418	-	-
Total expenditures	57,616	85,753	-	-	78,418	2,117	59,128
Excess of Revenue Over (Under)							
Expenditures	(2,178)	(1,801)	-	61,448	(7,999)	5,184	(14,460)
Other Financing Sources (Uses)							
Operating transfers in	-	-	-	-	-	-	9,550
Operating transfers out	(13,600)	-	(11,428)	(47,416)	-	-	-
Total other financing sources (uses)	(13,600)	-	(11,428)	(47,416)	-	-	9,550
Contributions	-	-	-	-	-	-	-
Net Change in Fund Balance	(15,778)	(1,801)	(11,428)	14,032	(7,999)	5,184	(4,910)
Fund Balances (Deficit) - Beginning of year	79,549	(311)	241,828	9	29,212	19,312	23,710
Fund Balances (Deficit) - End of year	<u>\$ 63,771</u>	<u>\$ (2,112)</u>	<u>\$ 230,400</u>	<u>\$ 14,041</u>	<u>\$ 21,213</u>	<u>\$ 24,496</u>	<u>\$ 18,800</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2005

<u>Permanent</u>		
	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
\$	-	\$ 44,619
	-	116,138
	-	2,774
	-	80,295
	-	13,033
	-	<u>66,367</u>
	-	323,226
	-	52,797
	-	77,998
	-	14,691
	-	59,128
	-	<u>78,418</u>
	-	<u>283,032</u>
	-	40,194
	-	9,550
	-	<u>(72,444)</u>
	-	(62,894)
	<u>9,300</u>	<u>9,300</u>
	9,300	(13,400)
	<u>203,102</u>	<u>596,411</u>
\$	<u>212,402</u>	<u>\$ 583,011</u>



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November 15, 2006

To the Honorable Mayor and
Members of the City Council
City of Belleville
6 Main Street
Belleville, MI 48111

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Belleville for the year ended June 30, 2005. In addition to the audit report, we offer the following comments for your consideration.

Reportable Conditions

In planning and performing our audit of the City's financial statements, we considered the City's internal control structure in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance. However, we noted items concerning the internal control structure and operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the City's management assertions inherent in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider the following items to be material weaknesses.

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November 15, 2006

Bank Reconciliations

Again this year, the City failed to timely reconcile certain bank accounts. Bank reconciliations are an important control feature for the City that helps prevent and detect material misstatements in the City's general ledger. The lack of timely preparation exacerbated accounting errors and irregularities identified during the audit. Accordingly, we highly recommend someone independent of the collection and recording functions reconcile the bank accounts on a timely basis. Furthermore, someone independent of the bank reconciliation process should review the reconciliation for completeness and accuracy.

Account Reconciliations

Again this year we noted that several accounts were not reconciled during the year. Following are the accounts identified:

- Water and sewer sales revenue was not reconciled to the customer billing registers.
- Interfund accounts including transfers and due to and due from accounts. In addition, there were banking transfers that were not recorded in the general ledger.
- Several other accrued liability accounts in the Trust Fund have the same balance as in the prior year.
- The performance bond deposit account which is used to record deposits from contractors is not being reconciled. The City has subsequently created a listing supporting this liability account.
- Investment accounts - During the year, a certificate of deposit matured and was rolled over into a new CD. The maturity was not recorded and there was no supporting documentation for the maturity and rollover of the CD.

Major Street Fund Debt Payment

During the fiscal year ended June 30, 2003, the Downtown Development Authority (DDA) loaned funds to the Major Street Fund. At the time of the loan, a debt payment schedule was established whereby the Major Street Fund is required to make annual debt service payments to the DDA. The final payment was due on June 30, 2005; however, it was not made. The total principal and interest of \$45,283 is recorded as a short-term interfund liability as of June 30, 2005.

Remittance of Property Tax Collections

During our testing, it was apparent that property taxes collected on behalf of other governmental units were not being remitted timely. The City should have a system in place to ensure the timeliness of these remittances.

November 15, 2006

Downtown Development Authority Property Taxes

It was noted during our testing that the Downtown Development Authority overcaptured property tax revenue for the fiscal year ended June 30, 2005. The Authority should remit these funds back to the other governmental units as soon as possible.

Additionally, there was an overcapture of property tax revenue relating to the fiscal year ended June 30, 2004, for which the City has not yet remitted back to the other governmental units.

Manual Journal Entries

During our testing of manual journal entries, one of the five entries selected for testing did not have supporting documentation. We recommend that documentation be maintained for all manual journal entries posted to the general ledger. Further, we recommend that manual entries be approved by an individual other than the person initiating the entry.

We also noted that the majority of entries tested had a posting date at least prior to the entry date, which indicates that entries are not being posted timely.

Library Activity

During the year the City is required to remit quarterly payments to the Fred C. Fischer Library based on the joint venture agreement. As of June 30, 2005, the City had not yet remitted its payments for the fiscal year then ended.

In addition, as of June 30, 2005, the City has an outstanding balance due to the Library for funds borrowed during the year.

Building Department

During our testing, it was noted that the building department now collects cash for building activities and then submits receipts to cashiers to record and deposit. There is currently no system in place to ensure all cash collections are accounted for and deposited. The City should implement a system relating to cash collections for the building department.

November 15, 2006

Legislative Items

Revenue Sharing

State-shared revenue accounts for approximately 20 percent of the City's total General Fund revenue.

This year's state budget discussion offered the hint of an increase in revenue sharing from the last several years. Revenue sharing was identified as a priority by the Legislature during its initial budget discussions and several proposals existed which included a blanket increase in revenue sharing of several percent and one which tied the increase in revenue sharing to local governments who demonstrated that they had engaged in service sharing, service consolidation, etc. In the end, the summer budget compromises that occurred in July saw no increases in revenue sharing over the last several years.

With the appropriation reductions to revenue sharing since 2001 (including approximately \$600 million in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. For those communities, because sales tax collections have increased, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing. The remaining amount of total statutory revenue sharing in the State's budget (approximately \$400 million) is supporting cities, villages, and larger, urban townships.

The statutory formula sunsets in 2007, so the remaining statutory revenue-sharing dollars will receive considerable attention next year. Next year, the State will also need to begin dealing with counties again as it relates to statutory revenue sharing. In fiscal year 2004/2005, the State eliminated statutory revenue sharing received by counties (which was approximately \$182 million in fiscal year 2003/2004) and, in return, allowed the counties to advance the levy of their operating millage to July from December. The additional monies from the earlier levy were utilized to create a reserve fund by the counties to replace lost statutory revenue sharing. The expectation is that when the reserve funds at individual counties become depleted, the counties will re-enter the State's statutory revenue-sharing formula. It is very possible that the return of county statutory revenue sharing could be at the expense of city, village, and township statutory revenue sharing.

Considering the unknown impact of the State's budget crisis, the anticipated sunset of the statutory formula, and the elimination of the single business tax (see "Update on Business Tax Reform") on state-shared revenue, we encourage you to develop a contingency plan to deal with possible additional reductions to this revenue item.

November 15, 2006

The table below details state-shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	Actual FY 2006	Estimated FY 2007
Constitutional	\$ 259,374	\$ 262,016	\$ 266,452	\$ 263,558	\$ 269,848	\$ 274,442	\$ 282,034
Statutory	214,960	197,966	176,944	134,945	124,331	115,331	107,739
Total payments	<u>\$ 474,334</u>	<u>\$ 459,982</u>	<u>\$ 443,396</u>	<u>\$ 398,503</u>	<u>\$ 394,179</u>	<u>\$ 389,773</u>	<u>\$ 389,773</u>
Dollar change		\$ (14,352)	\$ (16,586)	\$ (44,893)	\$ (4,324)	\$ (4,406)	\$ -
Percentage change		-3.03%	-3.61%	-10.12%	-1.09%	-1.12%	0.00%

We will continue to update the City as developments occur.

Property Assessment Cap

Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

November 15, 2006

For the year ended June 30, 2005, the City's Headlee maximum property tax rate for its operating levy was 18.6847 mills even though City Charter would allow the City to levy 20.0 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

Update on Business Tax Reform (and Its Impact on Local Government)

On August 9, 2006, the Michigan Legislature approved a voters' legislative "initiative" to repeal the Michigan Single Business Tax ("SBT") for tax years beginning after December 31, 2007, two years earlier than it was originally slated to end. In addition to the repeal, the law requires the Michigan Department of Treasury to prorate the SBT to result in the equivalent of zero tax on business activity occurring after December 31, 2007. Previously, the SBT was scheduled to be repealed for tax years beginning after December 31, 2009.

Currently, there is no plan for replacement of this \$1.9 billion in lost revenue to the State. If no replacement revenue is identified, statutory revenue sharing may become a target to fill the hole in the State's budget. The Legislature has created a "Joint Committee on Economic Growth" charged with submitting to the Legislature by December 1 recommendations on a replacement tax for the Single Business Tax. Also, ending and replacing the State's personal property tax, a significant revenue source to many local governments, has been added to the Committee's agenda.

These matters will receive considerable attention going forward and in 2007.

Cable Franchise Fees at Risk

The State of Michigan has joined a number of other states considering statewide cable television franchising. There is a bill (HB 6456) that would create a state video service authorization system that would replace the current system of local franchising of cable television providers, and also would apply to new providers who would provide service through phone lines. Details are still being worked out in regard to "public access" and local origination channels, franchise fees due to local governments, service boundaries, and other key provisions. Responding to pressure from local government, the Legislature has decided to wait until after the November elections to continue discussions regarding this bill.

November 15, 2006

Special Road Project Monies

As part of the governor's 2006/2007 budget package, \$80 million was proposed to assist local government to move forward on certain transportation projects and get greater access to federal transportation matching funds. The Legislature approved the governor's proposal as Public Acts 139, 140, and 141 of 2006. Michigan Department of Transportation officials are reviewing applications for the rest of the funding and the remaining recipients will be announced later this year.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation, and these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

911 Surcharge Sunset Extended

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006).

Bonding to Fund Liability for Other Postemployment Benefits

The day quickly approaches for local governments to measure the liability for non-pension benefits granted to government employees at retirement (most notably retiree health care). The new pronouncement is effective for the year ending June 30, 2010. Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you-go plan (which is the path for most local governments), or a combination thereof. To provide local governments with additional funding options, legislation has been introduced which would allow bonding as a funding tool. We will keep you updated as developments occur with this legislation.

To the Honorable Mayor and
Members of the City Council
City of Belleville

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November 15, 2006

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (June 30, 2005) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

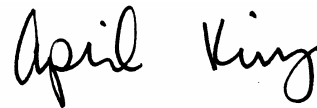
We would like to thank you and your staff again this year for their cooperation and assistance provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz", with a stylized flourish at the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "April King", with a stylized flourish at the end.

April King